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UniCredit S.p.A. (UNCRY) Q1 2024 Earnings Call Transcript

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Q1: 2024-05-07 Earnings Summary

EPS of $0.82 beats by $0.11 | Revenue of $6.85B (4.52% Y/Y) beats by $422.39M

UniCredit S.p.A. (OTCPK:UNCRY) Q1 2024 Earnings Conference Call May 7, 2024 4:00 AM ET

Company Participants

Andrea Orcel - Chief Executive Officer
Stefano Porro - Chief Financial Officer
Magda Palczynska - Head of Investor Relations

Conference Call Participants

Ignacio Cerezo - UBS
Delphine Lee - JP Morgan
Andrea Filtri - Mediobanca
Antonio Reale - Bank of America
Ignacio Ulargui - Exane BNP Paribas
Azzurra Guelfi - Citi
Britta Schmidt - Autonomous Research
Marco Nicolai - Jefferies
Chris Hallam - Goldman Sachs

Operator

Good morning, ladies and gentlemen. Before I hand over to Magda Palczynska, Head of Investor Relations, a reminder that today's call is being recorded. Madam, you may begin.

Magda Palczynska

Good morning, and welcome to UniCredit's First Quarter 2024 Results Conference Call. Andrea Orcel, our CEO, will take you through the results. This will be followed by a Q&A session with Andrea and Stefano Porro, our CFO. Please limit yourself to two questions.

With that, I will hand over to Andrea.

Andrea Orcel

Thank you, Magda. Good morning and thank you all for joining. Our Q1 ’24 results are the embodiment of the continued hard work by those at UniCredit and our commitment to continuously pursue excellence. They underscore again, that UniCredit Unlocked is the right strategy as we build on our momentum, adapting and navigating the changing external environment to the benefit of all our stakeholders.

We remain an attractive investment opportunity as our past performance and future prospects are still not reflected in our valuation. Both our price to earnings and price to distribution multiples remain at a substantial discount to both sector and top peers.

Our commitment to excellence has resulted in our best first quarter ever and our 13th consecutive quarter of year-on-year profitable growth, setting new benchmarks in performance across all regions, product lines and metrics. This success is underpinned by resilient, profitable net NII, robust fee generation and improved operational and capital excellence with every region and business contributing to making a better whole.

We have spent the last three years securing a position of industry leadership as we continue to outperform expectations and peers while building strong foundations of investments, capital, asset quality and liquidity to support our future.

During the next three years, we remain committed to completing our UniCredit Unlocked transformation, further growing our results while delivering outsized returns. We will increase our focus on clients to counteract macro headwinds and further improve earnings quality.

We will propel our top line by further expanding our fee base, crystallizing the investments and the work of the past three years while defending our unique high-quality net interest income net of loan loss provision that already exceed our cost of equity. All while striving to maintain our leadership in operational and capital efficiency.

Finally, we will benefit from the gradual release of our extensive profit and loss buffers. We are confident in our ability to deliver our mid-term guidance of strong growth in EPS, DPS and tangible book value per share, return on tangible equity above 15% and overall distribution above 2023, thanks to our expected organic capital generation and excess capital return.

For UniCredit, excellence means consistently delivering superior results, exceeding our strategic objectives and leading the industry across all KPIs. The mindset, this mindset, is our competitive advantage. Our growth is profitable, constantly outperforming expectation while investing and creating lines of defense for our future to ensure sustainability.

Our outstanding performance is across all our three financial levers. Net revenues reached €6.3 billion, up 7.5% year-on-year; NII was up 9% with LLPs flat and low; fees up 3%, or 8% excluding current account fees, reduction in Italy and securitization costs. We have continued to improve our operational efficiency, reducing absolute cost by 1% to €2.3 billion while absorbing inflation and propelling investments. Our cost-to-income ratio improved further to 36.2%, three percentage point better than a year ago.

Similarly, we have continued to improve our capital efficiency with net revenue to RWAs reaching 8.9%, up from 7.7% a year ago, with RWA's down €5 billion to €280 billion. All contributed to deliver a record return on tangible equity at 13% CET1 of 23%, up 2.6 percentage point year-on-year; a net profit of €2.6 billion, up 24% year-on-year; and an organic capital generation of €3.4 billion or 118 basis points, which allowed us to accrue €2.6 billion or 100% of our net profit in Q1 for distribution whilst increasing our CET1 ratio by 35 basis points quarter-on-quarter to 16.2%.

These translate into an EPS up 42% year-on-year; a DPS up 64% year-on-year; and a tangible book value per share up 25% year-on-year. These results are built on strong foundation across leading capital levels, sound asset quality and strong liquidity ratio with LCR above 140% and NSFR above 125%. All regions and all product factories contributed to these results.

Our net revenue is broken down into three categories, Net Interest Income net of LLPs, Fees and Trading & Others. Our focus on quality growth has resulted in structurally low loan loss provision and a net NII that continues to exceed our cost of equity. We believe to be only one of two banks who have achieved this.

Our Fees have experienced strong and broad based growth leading to a top tier fee-to-revenue ratio, reflecting our investment in product factories over the last three years. Our Trading & Other revenue has been primarily driven by core client activity which has supported its resiliency. We recognize that NII net of provision plays an important role in our top line. We have successfully focused on keeping it above our cost of equity while laying the foundation for its profitable future growth.

Gross NII and margins are slightly down quarter-on-quarter as rates have peaked and volumes have not recovered. This appears to be a better dynamic though than peers particularly given our focus on profitability rather than volume. Adjusting for the effects, NII was flat quarter-over-quarter. We successfully managed pass through to increase only two percentage point to 30% driven mainly by Germany and Central Europe.

Deposit volume stabilized Q-on-Q with growth in Germany and Central Europe and Eastern Europe while Italy reflected some rotation to BTPs. As our approach of prioritizing profitable client segments grows over volumes, moderates overall NII growth, our risk adjusted NII net of LLP remained above our cost of equity and is up 5% quarter-over-quarter. This focus on quality growth will continue to sustain superior profitability, organic capital generation and ultimately distributions.

Our cost of risk which is structurally lower thanks to disciplined underwriting, improved asset quality and coverage, has contributed to the increase of our net revenues and the decrease of their volatility. This is a differentiated advantage which we intend to defend. Our stated cost of risk remained very low at 10 basis points mainly due to the continued writebacks primarily from Central Europe, Eastern Europe and Russia.

We are reiterating our guidance for stated cost of risk below 20 basis points for 2024. Our default rate increased from circa 1% for the full 2023 to 1.3% is exclusively driven by two single names, one of which is mostly State guaranteed. The underlying default rate is at 0.9% down year-on-year. We have taken an average of €100 million of writebacks from back to bonis per quarter since Q1 2022 and this quarter is no exception.

The circa €14 billion reduction in Stage 2 performing loans this quarter is largely due to good performance of underlying portfolio. We still have circa €1.8 billion of overlays to protect our performing portfolio, highest among peers. We have a better quality of NPE with above 70% of unlikely to pay and past due to total NPE. These demonstrate our strong asset quality combined with a conservative classification and provisioning policy.

To report our fees more simply, we have changed their classification as detailed in the annex. Our fee base which accounts for 34% of total revenues today, 41% in Italy, grew 8% year-over-year ex-current account fee reduction in Italy and securitization cost. Investments were up 18%, Insurance 5%, driven by Non-Life up 12% and Payment up 11%. We are particularly pleased with the diversified and balanced nature of our fee streams.

The positive momentum across all fee categories reflect our strategic investments in our product factories and renewed client appetite. We see continued potential for differentiated growth as we internalize and focus on capturing more share across each product value chain. A significant portion of this fee growth is locked-in and not dependent on market dynamics, rather managerial actions. We therefore aim to achieve €1.4 billion higher run rating fees in 2026 versus 2023.

Cost management remains disciplined, supporting investment in our business and people, absorbing inflation and driving overall costs down while increasing our top line. We are continuing to streamline our organization, automating processes and reducing bureaucracy. We maintain a continued focus on hirings, training and remuneration as a direct route to enhancing our product factories and digital capability. As a result, our overall costs are down €170 million quarter-on-quarter and €16 million year-on-year, offsetting 3.4% inflation in our footprint this quarter by proactively acting to manage salary drift.

Our cost/income ratio reached a leading 36.2% in Q1, down 3 percentage points year-over-year and 5.5 percentage points quarter-on-quarter. Q1 was one of our strongest quarter yet in organic capital generation, 118 basis points or €3.4 billion in the quarter. This allowed us to accrue our full net income of €2.6 billion for distribution while further increasing our leading CET1 ratio by 35 basis points to 16.2% and retaining a best-in-class MDA buffer of almost 600 basis points.

Our disciplined focus on quality net income growth complemented by an obsessive focus on operational and capital efficiency is key to maximizing profitability and organic capital generation, enabling outsized ordinary distribution whilst strengthening capital. This model is a competitive advantage for UniCredit.

As I now take you through our regions and product factories, please note the differentiated strengths and value add that each one of our regions brings to the overall group as well as the value that the group brings to each one of them, making UniCredit better than the sum of its part.

Let's move to Italy. Italy has again delivered outstanding result with its ROAC reaching 31% and profit before tax €1.6 billion, up 18%. Italy continues to drive the increase in our group's fees and insurance income and profitability of NII net of LLPs. Our consistent improvement in client focus and delivery across our three financial levers, have brought us closer to our ambition of becoming the bank of choice in Italy.

Net revenue grew 7% year-on-year to €2.8 billion. NII was up 13% on rates and strong pass-through management. Cost of risk increased to 33 basis points driven by the full write-off of a single name credit which is largely State guaranteed. As such, net NII was up 14%. Fees were up 11% when excluding the current account fee reduction and securitization cost, 3% otherwise. They reached 41% of overall revenues including insurance results.

The continuous search for operational and capital excellence drove cost to income ratio down to below 34% and net revenue to RWA up to 10.4% with RWAs decreasing 9% or €211 billion.

Our people, clients and communities remain central to how we operate. It is testament to the support that we provide our people that we have been named top employer in Europe for the eighth year in a row. We launched Buddy, a full-service fully digital branch fully integrated in our distribution channels to provide our client with a choice of how, when and where they access us. We unveiled our Third Edition of UniCredit for Italy totaling €10 billion of additional credit.

Germany, with its AAA rating and leading European player status, Germany has again delivered a strong result with ROAC exceeding 23%, up 4 percentage point year-over-year and profit before tax €800 million, up 24% year-on-year supported by a standout 7% reduction in their absolute cost base.

Net revenue were €1.4 billion, only 4% below our stronger ever quarter in Q1 ’23. Strong growth in high quality NII, investment and payment fees were unable to offset last year extremely high client demand for hedging and low cost of risk. NII was down 9%, however it is slightly positive, net of higher funding cost on market positioning which are counterbalanced in trading result.

Cost of risk increased to 21 basis points driven by a single name. Investment fees were up 5%, payment fees 10%, fees overall down 3% due to the exceptional high base of hedging fees in Q1 2023.

The continued search for operation and capital excellence drove Germany cost/income ratio down to 38.5% and net revenue to RWA up to 8.1% with RWAs decreasing €9 billion. Our sustained commitment to supporting entrepreneurship and inclusivity has seen us reaching circa 1700 beneficiaries in underserved areas with training and workshop during the first quarter.

Central Europe. Central Europe continues to deliver on our ambition to become the leader in the region both in terms of franchise and performance. ROAC reached 22%, profit before tax rose 43% to €600 million. Net revenue grew 12% year-on-year to €1.1 billion as our approach to quality growth paid off. NII was up 11% on a strong rates environment, cost of risk remained negative reaching minus 20 basis points driven by continued writebacks.

Net NII was up 15%. Fees were up 10% driven by investment products. Our cost increased only 1% despite high inflation leading to an improvement of our cost to income ratio to below 37%. Net revenue to RWAs improved to 7.4% with RWAs decreasing €600 million.

Our innovation in the region continues with Hungary launching onemarkets adding to successful launches in Austria, Czech Republic and Slovenia. We launched end-to-end investment via mobile in Czech Republic and Slovakia and we have issued a €750 million Green Mortgage Covered Bond in Austria.

Eastern Europe continues to increase its number of primary clients driving top-line growth while maintaining sustained operational and capital efficiency. ROAC reached 39%, profit before taxes was up 29%, lending at €500 million. Net revenue grew 16% year-over-year to €700 million. Our approach to quality growth resulted in a 23% increase in NII driven by strong commercial dynamics and a favorable rate environment.

Cost of risk remained negative at minus 27 basis points. Net NII was up 18%. Fees were up 13%, thanks to our focus on payments, financing and advisory. Our cost growth of 4.8% in the region was half the average inflation level contributing to a decrease in our cost to income ratio to circa 30%. Net revenue to RWAs reached 10% with RWAs increasing 10% however half our gross revenues.

This quarter, we were the joint lead manager on the €1.5 billion Zero Bond offering by Republic of Croatia and the first in the Bulgarian and Bosnia and Herzegovina markets to sign a Green Renewable Energy source. We continued the rollout of our onemarket funds with 16 funds in Bulgaria and launches in Romania. Our partnership with Alpha Bank in Romania and Greece is off to a strong start.

Client Solution has delivered excellent results with gross revenues up 6% to €2.9 billion of which 65% were fees, up 8%, thanks to our focus on superior quality products for our banks while contributing to capital light growth. Our Corporate Solution revenue increased 4% to €1.4 billion whilst RWAs declined 12%. Within this Advisory & Financing generated strong fees particularly in DCM and M&A, up 23% year-over-year.

Payment Solution revenue increased 1% to €600 million driven by payments, up 14% which were able to offset lower current account fees to our clients in Italy. Individual Solution revenues increased 14% to €900 million driven by investments up 18% to €600 million, thanks to demand for in-house products such as onemarkets, bonds and certificate leveraging on interest rate stabilization and product innovation.

Insurance was up 5% to €300 million driven by Property and Casualty up 12% and a recovery in Life Insurance up 2% from a week 2023.

As promised, we are going to now go through briefly a couple of deep dives, firstly, Corporate Solution. Our ambition for Corporate Solution is to become the go-to bank for small and mid-corporate clients in our core market. We're well on our way to achieving this. This business delivered €4.9 billion of revenues in 2023 of which 37% or €1.8 billion were fees but we expect to increase by €300 million by 2026.

In Advisory & Financing which contributed €2 billion in 2023, we have grown our talent base and built an advisory and capital markets -- capital-light value-adding business to both balance and benefit from our financing. This is working well with fees reaching 25% of total revenues. We expect them to increase their weight to circa one-third by 2026.

Our Trade & Correspondent Banking business which contributed €1.1 billion in 2023, is a leader in Europe where we secure twice the cross-border market share that we have in any domestic market as we accompany our clients end-to-end. We continue to invest in improving our client experience, digitalization and overall quality of the service with fees representing more than half of our revenues.

Our Client Risk Management Solution which delivered €1.8 billion in 2023 are designed for SME clients to whom we provide targeted offering on rates, commodities and effects. We remain focused on improving our client's connectivity and client-driven business. Fees account for 42% of total revenues. We shall reduce RWA usage and cost further through to our trading engine centralization project.

Let's move to Payment Solutions. Payment Solution is a core area of investment and growth for the Group. It offers transactional payment, issuing and acquiring and current account to our 15 million clients across our 13 banks in Europe with the ambition to be every European client's first bank of choice for payment. We are well advanced in consolidating Payment Solutions into a centre of excellence, creating a united factory alongside Individual and Corporate Solutions that can provide best-in-class products and growth to our 13 banks.

The business delivered €2.5 billion of revenue in 2023 of which circa 90% were fees that we expect to increase by €300 million by 2026. We are ideally positioned to be a gateway to innovation, leveraging partnership, global platform and group data intelligence. Our strong payments DNA and flexible technology make us a standout in the market.

We are the number one EU bank for transactional payment with a cross-border payment market share of over three times that of intra-country payments. The business delivered €1.3 billion of revenue in 2023 of which 82% were fees which we expect to grow at a 4% CAGR out to 2026. Our inherent success factors include advanced international payments, sophisticated cash management and treasury-related solutioning FX, rates and commodities and our ability to leverage our unique pan-European network.

We have three key strategic priorities here further boosting our leading position in the pan-European payment space by expanding our capabilities in mature markets to other CE and EE countries. Second, maintaining our domestic leadership in each market by extending and enhancing our product offering. Third, evolving towards a truly client-centric approach to counter emerging threats and increase our share in the business.

In both Issuing and Acquiring we are in the top three leading positions in six European markets including Italy. We intend to further strengthen our position in all our 13 markets expanding our capabilities and exploiting digital payments especially in CE and EE. The business delivered business delivered €500 million of revenues in 2023 of which 91% were fees which we expect to grow at a CAGR of 8% out to 2026.

In Issuing we are positioned to win in the market with 13 banks having issuing licenses performing over 5.5 million pure POS or cashless transactions per day in 2023. We have a direct issuing license model in all markets and we've insight from extensive card transaction data through a highly diversified product offering including consumer and commercial cards across prepaid debit and credit card products.

In Acquiring we operate across 10 countries with a principal license model performing 5.75 million POS transaction per day in 2023. In-house acquiring is a cornerstone of our strategy which gives us a competitive edge. To further enhance our offering, we're also revamping this business proposition and product offering becoming a merchant acquiring bank with fully integrated Acquiring Solutions. Overall, we have the potential to be the standout player in the payment industry and are committed to meeting that ambition and providing excellent services to our clients.

UniCredit Unlocked has already fundamentally transformed our bank laying the foundation for sustainable and profitable future. This has led to UniCredit delivering 13 consecutive quarters of profitable growth taking us to the top of the industry in terms of EPS, DPS and tangible book value per share growth, return on tangible equity, organic capital generation, distribution, operational and capital efficiency and CET1. All while continuing to invest to propel our future results and continuing to accumulate significant buffers to further protect our delivering and our distribution in the future. These include €1.5 billion non-operating items, €1.8 billion in overlays and more than €6.5 billion of excess capital going forward.

We are far from being finished. We're determined to achieve our long-term ambition of excellence and have the levers to do so. We have made substantial progress in making UniCredit more efficient and effective. We shall now accelerate our journey towards a truly client-centric organization serving them as efficiently and effectively as possible.

Our strategy has a dual focus. The first pillar is our operating machine. We're continuously simplifying our organization, streamlining our processes and operations and upgrading our technology. This supports our second pillar, our commercial machine. Firstly, this means continuing to empower, motivate, train and focus our people on understanding and addressing client needs. Secondly, it is developing and fully integrating alternative distribution channels to ensure that clients can access that when, how and where they want. And finally, it is about ensuring the seamless delivery of top-tier products provided through our factories and best-in-class partners via our integrated distribution channel.

Going forward, we focus on continuing to expand our fee base, defending and further enhancing the profitability of our NII net of provision and the stability of our trading operations. This ensures a well-rounded and resilient top-line. Our capital accretive, NII net of LLPs, exceeds the cost of equity in its own right with low volatility. We believe to be one of the only two banks in Europe in our peer group that have delivered this much.

Our quality backbook and higher strategic flexibility on volumes, along with our strong replicating portfolio, shall partly offset rates headwind and the continued compression of Russia. Our fees have substantially grown in importance and now provide a strong starting base, stable and diversified. We now have an improved mix compared to our peers, with fees at 34% of revenues and strong lever with which to grow our fees by a further €1.4 billion out to 2026, thanks to past investment and clear action to further unlock our in-house product factories.

By integrating these diverse revenue streams, we are creating a high-quality top-line unmatched amongst peers and one of the critical factors to superior sustainable return on tangible equity, organic capital generation and growth. Our ability to maintain industry-leading operational and capital excellence is critical to delivering on our profitability and organic capital generation ambition and ultimately distributions.

We currently rank first in cost to income ratio, cost of risk and capital efficiency. Our absolute cost base has been consistently reduced despite inflationary pressures while investing for the benefit of the business in line with UniCredit Unlocked. We have taken significant integration costs, preparing the ground for continued future cost reduction, leveraging ongoing simplification efforts.

A decade of de-risking, vigilant origination and continued conservative provisioning have resulted in a structurally lower and much less volatile cost of risk, which we trust we will be able to maintain below 20 basis points this year and within the 20 basis points to 25 basis points over the cycle, leveraging the release of our €1.8 billion of overlays.

We have improved our capital efficiency since UniCredit Unlocked, delivering now best-in-class organic capital generation to support sustainable and significant distribution without denting CET1. Our discipline is now embedded and we expect it to continue unabated. Our unique BNL buffer substantially derisk our ability to deliver our bottom line and combined with the usage of or return of our excess capital shall support greater total distributions.

We are upgrading our net profit guidance to in excess of €8.5 billion versus our previous guidance of broadly in line and you all know what my personal ambition is. This is driven by a strong Q1 which puts us ahead of our run rate for the year and a better outcome on systemic charges which we now expect to be around €400 million lower than ’23 or circa €200 million better than we had anticipated.

Given our healthier profitability and most importantly, organic capital generation and excess capital return commitment, we are upgrading our expected 2024 total distribution to circa €8.6 billion in line with 2023. This continues to represent the highest total distribution yield in the industry. Accordingly we are accruing 100% of net profit in the first quarter. Our dividend payout remains at 40% of net profit or circa €3.4 billion.

Our 2024 calendar distribution could now exceed €10 billion. We aim to commence the first tranche of a remainder of a 2023 share buyback as soon as possible after results. There will be more tranches soon thereafter. We are confident that in the next three years we will continue to offer a compelling investment opportunity across strong growth of EPS and DPS, profitability and best-in-class total distribution underpinned by organic capital generation and excess capital deployment or return, no later than 2027.

In the event that our excess capital cannot be deployed and is therefore returned in full to our shareholders, we anticipate based on our profitability an organic capital generation assumption that our total annual average distribution ’24 to ’26 will be either equal in ’24 or above €8.6 billion in ’25 and ’26. As such, we should be able to return in this event half of our current market cap to our shareholders within the next three years.

Should any of the excess capital be deployed, the level of total annual distribution shall remain best-in-class but depend in their amount on the return on those investments. We confirm that traditional bank acquisition shall be executed only if they fit strategically and if their POS synergies return compare favorably with those of our share buyback.

Our transformation efforts have delivered consistent outstanding results across all KPIs, surpassing our peers. As of Q1, we are the leader in terms of EPS, DPS and tangible book per share growth, return on tangible equity, cost/income ratio, CET1, organic capital generation and expected 2024 distribution yield. And we're not done as our guidance for ’25 and ’26 and in general for the next three years demonstrates.

We remain an even more attractive investment opportunity as our past performance and future prospects are still not reflected in our evaluation. Both our price to earnings and price to distribution multiples remained at a substantial discount to not only top peers but also to the sector particularly when adjusted for excess capital and the comfort provided by our lines of defense.

Before I open to question, I would like to leave you with three key messages. One, this quarter has once again demonstrated the effectiveness of our UniCredit Unlock strategy. Our metrics of growth, profitability, and distribution set a benchmark for the industry. Two, looking forward we have plenty of runway left and are excited at the opportunity to show what we can do when rates and cost of risk normalize. In addition, we shall maintain a distribution yield and strategic optionality that are unmatched. Thirdly, our valuation is far from reflecting the above and we remain focused on continuing to deliver the results and distribution but will ultimately drive it to where it should be.

Thank you everyone. And I now open for questions.

Question-and-Answer Session

Operator

This is the Chorus Call conference operator. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Ignacio Cerezo with UBS. Please go ahead.

Ignacio Cerezo

Yes, hi, good morning. Thank you for taking my questions. Can I ask you for a little more color in terms of the breakdown of net profit growth in absolute terms and the share count reduction over ’25 and ’26? And you seem to be suggesting a strong EPS growth. Again I'm looking for a little bit of color basically in terms of the absolute versus the per share. And then the second one is, maybe you can give us a little bit of information around how much seasonality the fee number has included this quarter. This is very strong everywhere. I mean I've seen that the gross fee [indiscernible] have increased I think from €9 billion to €14 billion. So just trying to understand the path of the fee line actually through the year? Thank you very much.

Andrea Orcel

I'll start and then Stefano will continue, Ignacio. So in terms of EPS and DPS what is which? I think we have purposely gone on EPS and DPS because it all depends on the speed and significance of the rates reduction and how the pass-through is managed. So we anticipate to be able to absorb the headwinds but the speed at which that happens vis-a-vis the offsetting levers, i.e. fees, i.e. cost, i.e. cost of risk which is going to normalize and the release of some of our buffers is at this point in time difficult to predict exactly. But suffice to say that we intend to defend our line of profitability at the moment at least and hopefully once we normalize, grow it further from there.

With respect to the fees what I would say is that everyone has had very strong fees in this quarter. A lot is driven by clients moving in anticipation of rate reductions. It's difficult again to understand how much of that move will continue into second and third. I personally would not multiply by four, if I were you. But there is definitely a very positive trend going forward on rebalancing from other investments that were let's say preferred while we were in a higher interest rate environment to investment that are more in line to what it was before the rising rate.

I would also highlight that in our question, that goes back to your first question, timing is important because for example our fees next year will benefit from internalization of insurance. Our fees in asset management are benefiting by internalization of some of the value change as we develop our in-house products. That's timing. Our fees in Payments are benefiting by the rollout of a MasterCard agreement and our agreement with Nexi and other initiatives. So it's a question of timing between what our idiosyncratic industrial transformation of the factories and of the very fee engine occurs and at the same time how fast the NII comes down and to which level due to the rates environment.

But maybe Stefano can add to that.

Stefano Porro

Yes, if you look the performance year-on-year on our fees, you should take into consideration that we have a double digit growth on Property and Casualty, and Payment fees. Such a double digit growth in a way is sustainable. I mean it's connected to the activity of the clients but having said that, is more sustainable than what we can expect in relation to the investment fees in the sense that we still have a good pace in relation to the investment fees but a part of the trend that we saw is deriving from the rebalancing of the portfolio of the clients. So a part of that should normalize during the course of the year.

Andrea Orcel

Ignacio, one last thing, we're not changing our guidance on fees for the year, so it will be a few hundreds up. So what you're seeing in the first quarter is part market as Stefano said and part the rollout of our plan. The rollout of our plan continues, the part of the market we need to see what happened and how does it stabilize it over the next two or three quarters.

Ignacio Cerezo

Thank you.

Operator

The next question is from Delphine Lee with JP Morgan. Please go ahead.

Delphine Lee

Hi, morning, thanks for taking my questions. My first one is just on net revenue guidance which is unchanged at €22.5 billion. It looks like your cost of risk is definitely running better and revenues in general. I take your point on investment fees and part of that is, could save a bit in the next two quarters but Q1 is a very strong performance in trading as well. So just trying to think about what does that mean for net interest income and if you could just give us a bit of color of what are the moving parts and if there is any concerns or from the deposit pass-through increasing a bit higher maybe?

And then my second question is on M&A. Thanks for the update but just kind of wondering a little bit so the criteria are clear. Now just thinking, the horizon is 2027 or should we -- could we consider something a bit earlier than that? I mean what are you thinking here in terms of also areas of interest, M&A wise? Thank you.

Andrea Orcel

Delphine, if I bought all my shares this year the market could not absorb it, so now seriously. So I'll frame a little bit and then I'll pass to Stefano. Let me start with the second one. So we said at least 2027 and I think we are committing given our expectation with respect to net profit and organic capital generation more than committing, we're guiding to exceed €8.6 billion in distribution. So we have a buffer. I mean you can do €6.5 billion in -- up to the end of ’27 or you can do it a little bit earlier but that should give confidence that total distribution can be supported.

And how much every year will depend on a number of factors including how well we do on the ordinary and how well we do and what do we do in deployment of capital and other things. But we have set a line of trying to beat the ’23 distributions. More generally and then I'll pass it to Stefano. I had that question before, why are -- what is our guidance and what has changed? I think what we have just done is before we were broadly in line now we say in excess of €8.5 billion, so we have broadly in line may mean plus minus €200 million. We've cut the downside and we said we're not going to be below €8.5 billion and actually above and we've kept the upside, that's what we have done.

So if you look at Q1, one thing is certain, the results are well ahead of trend line that we expected and they have given us the confidence to be more secure that the downside is -- that we can manage with any downside. Now we're only in Q1, so we're not going to give you more than that. In terms of fees, we expect the same -- similar performance to what we were saying. In terms of NII, at the moment we have more encouraging results. But let's see what happens not only in the second but in the second part of a year when rates should decline and how fast they decline. So there are still quite a lot of moving parts so I would say that the general message is given where we are and what we're seeing we have cut the bottom and we have left open the upside.

Stefano Porro

So integrating on net interest income, so key elements, one is rates, a few basis points less rates in Q1. All-in-all, the average of ’24 should be higher than the average of ’23. This should positively impact the net interest income but as rate [indiscernible] in the second part of the year there will be a reduction of the rate so from that perspective is important to bear that in mind.

Replicating portfolio contribution is slightly better than the expectation, so for the full year in comparison to 2023 will be above €400 million, so that's a positive side. Russia contribution negative, so concerning the leveraging ongoing you can expect few hundred million less net interest income in the next three quarters.

Pass-through, I have to say, pass-through it's a couple of percentage up so we are at 30%. We are expecting to close the year with a average that is slightly above 30% so we then an exit Q4 close to 35%. So all-in-all, this should negatively contribute to net interest income, however as commented before the two positive news, rates on one end and the replicating portfolio contribution on the other end.

Volume side, we do expect during the course of 2024 an exit level of the lending stock lower than the beginning of the year mainly for the trend that we are seeing here in Italy. It will be different for 2025 with regards to client rate trend on the lending side so far so good, so the repricing is ongoing and especially on the new lending production but it's not such to have a meaningful contribution to net interest income in comparison to what we've gathered for.

Delphine Lee

Thank you very much.

Operator

The next question is from Andrea Filtri with Mediobanca. Please go ahead.

Andrea Filtri

Good morning. Could you please provide us with the net interest income contribution this quarter from the several State eco-bonuses 110% and all the likes? And what is the updated exposure at the end of the quarter in terms of your obedience? And then the second question regards bank assurance, you indicated the next year integration of the product factories. Does this also imply your application to be a financial conglomerate and what is the technicality and schedule to obtain this qualification? Thank you.

Stefano Porro

So in relation to the exposure is to eco bonus related credit is around €6 billion, the quarterly contribution is around €35 million per year. So this is fundamentally what we had also in relation to Q1. With regards bank insurance, it will be depending on a couple of factors. So one, the timing of the execution of internalization, the second one is the timing connected to the interaction with the regulator that will start in advance. So all-in-all, we can expect that such a regulation treatment can be achieved by a year in terms of horizon after the moment when we will execute.

Operator

The next question is from Antonio Reale with Bank of America. Please go ahead.

Antonio Reale

Hi, good morning, everyone. It's Antonio from Bank of America, two questions for me please, the first one on the positive remuneration and the second one on Russia. The first one, can you give us an update in terms of what you are seeing both from competition and from your client base when it comes to the positive pricing, maybe with a commentary across your key geographies, I think you have slightly moved up your pass-through assumptions for the year. I am trying to understand if it is a function of the change in assumptions on interest rates or actual changes in the deposit remuneration in absolute terms? That's my first question.

Secondly, you have besides your local subsidiary in Russia, which is liquid, well capitalized. I think you were allowed to upstream some dividends, if I am not wrong. And you've talked about the risk in targets of above 10% a year, what is the end game for you in Russia now? What do you expect to be roughly the contribution to P&L this year coming from Russia? Thank you.

Stefano Porro

Let's start from the deposit, so we commented about deposit pass-through that is around 30%, we're moving up from 28% in Q4. Some comments in relation to the region, so Italy we are at 14.5%, in terms of deposit pass-through, we are up from 13.8%. Overall, the deposit mix is still tilted towards site deposit, so we have 96% of site deposit, so there is fundamentally no contribution to term. There is a not meaningful change in the behavior of the clients and from that perspective, yes, the composition is there especially on term offer but it is not such to meaningfully impact the pass-through.

In Germany, the deposit composition is a different one because the site depo, to give the flavor is around 55%, so it is a completely different one. There the competition on term deposit is different, it is there. In Germany, there was an increase of the deposit pass-through and as a consequence also of the overall client rate, the deposit pass-through move up from 41% to around 43%.

Central Europe, we move from 41% in Q4 to around 44%. Main country where there is an increased level of pass-through competition is Austria in line with the market rates. And Austria move from close to 40% to around 43%, Eastern Europe was 24%, now we are at 27%. All-in-all the trend of the pass-through is in line with the expectation as later the competition is higher especially in Austria for we see a stabilization in relation especially on the Corporate side across the board. There is still some movement on the Individual side especially in private banking and then we are not expecting a minimum change in the pattern during the course of Q2 to be seen the velocity of the repricing especially in the euro area when rates will start moving down in the second half of the year.

Andrea Orcel

So with respect to Russia, our cross-border exposure is down 91% over the two-year period of €5.6 billion and we have managed it in a very disciplined fashion, calm fashion, I would say and managed to lose single digit on it. So we consider that the right way to go and we expect that the cross-border exposure that remains will practically be dealt with or reversed by the end of 2025. With respect to the local exposure, our local exposure is down 67% over the last two years or so and we are continuing to compress decisively and we will continue to do that in the next few years and you should expect an accelerated decline.

With respect to the end game, I think all we can do is do well what we control. We control the level of our business, we control what we do, how we protect against sanctions, compliance events, etc., etc., that we do. Obviously, if there were an opportunity to sell it or if there were an opportunity to further accelerate our disengagement, we would. At this point in time and certainly vis-a-vis where we were two years ago, the impact on capital and P&L from that exit has been vastly reduced and I think we continue to do that. We are already factoring in the numbers that we are giving you, which is why you should look, considering that, the trends.

With that in mind, obviously the compression of Russia is taking out NIIs, is taking out bottom line and correctly so, but the decline is not all underlying business, which means if you take Russia away, the underlying business is performing better than the numbers you are looking at now.

Antonio Reale

Thank you.

Operator

The next question is from Ignacio Ulargui with BNP Paribas Exane. Please go ahead.

Ignacio Ulargui

Thanks very much for the presentation and for taking my questions. I have two, if I may. The first one is on cost and how should we think about cost going from here after the four months that you have delivered in 1Q? If you could break up that in the main geography, that would be great. The second one is on fees and looking to the disclosure that you have given on payments, thanks very much for that. I was just trying to better understand how do you see the current accounts fees going forward and how that €300 million growth in fees by 2026 will be split within these three buckets that you have given us? Thank you.

Andrea Orcel

So, cost. As I said, I think that by now the entire UniCredit is obsessively focused on efficiency. And we are guiding to cost below €9.5 billion this year, which means we will have had, effectively in the next three years, declining costs gradually, orderly, every quarter and I think we are going to try to keep it that way for as long as we can. There will be, in terms of absolute decline, a bar at some point, but we're not at that bar now and that allows us to do the following things. One, absorb inflation, salary drift and other. So, one that. Two, absorb investments that we're making in hiring new people, in training, in technology, etc., etc. And three, to obviously improve the jaws and the cost/income ratio to a greater extent than people that are maybe more focused on the top-line. We focus on both as obsessively and we will continue to do that.

What happens by geography obviously is different. I mean, we have geographies that are, let's call them stable. Those geographies are rationalizing cost to a greater extent than geographies who have higher inflation and are growing much faster, especially in Central and Eastern Europe, where due to inflation and much faster growth, the ability to keep costs negative is not there. But if you look at the dynamics of growth of top line inflation versus cost, we are creating a positive gap everywhere.

If I look at fees, I would just say on current account. As you know, we cut our current account fees to Italian clients in April 2023. So going forward, the comparison is for like-for-like. So in the second, third and fourth quarter and first of this year, we've always had to tell you, look, the underlying fees are these, but because we cut the current account fees to our Italian clients, they look less. From the second quarter onward, the comparison will be like-for-like. So while we're not changing our guidance for fees, and you know what it is, when you look at the growth, you should look at underlying because the current account fees are there and they're not going to move. But I don't know if Stefano wants to give more.

Stefano Porro

Yeah, just simply adding that in relation to the €300 million growth of payment services until 2026, the contribution of the growth is not coming from current account. So you can consider a fundamental stability is deriving from two sets of activities. So one is issuing, so meaning cards, and the second one is payment systems or transactional payments. So these are the two engine that will contribute to the €300 million growth.

Ignacio Ulargui

Thank you very much.

Operator

The next question is from Azzurra Guelfi with Citi. Please go ahead.

Azzurra Guelfi

Hi, good morning. Two questions for me. One is on your Client Solution business. Do you think that there has been a change of perception of delivery positioning from both competitors and clients and now you are a forefront for growing more and this is something that is well received from clients? The second one is still on the [indiscernible]. You have made several changes and investment and refraction in this part. I am aware of the -- among the contractor negotiation and the insurance coming into place next year. But is there any other investments or reshaping that you would like to do into this business? Or it's just about now taking the benefit of everything that has been done so far? Thank you.

Andrea Orcel

Thank you, Azzurra. So Client Solutions. Let's start with where we are. I think this is one of the question you should have for Alpha Bank in Greece. I think that demonstrates that the quality, the level, the appropriateness and the way it's designed of our solution across investments, across insurance, across payments, across trade finance, and I can continue and across that integral market, of course, are done in such a way that they are particularly targeted to the clients of a commercial banks, i.e. small and medium corporates, affluent clients, private banking, that stream. And indeed we are very pleased and I think they are very pleased of what can be done with our factories in third parties, which fundamentally means that they are adding value, otherwise they wouldn't be making it.

The same I would say if you look at Central and Eastern Europe and you take specific countries, I don't know, Bulgaria, Bosnia, it would be difficult for them to have the breadth and quality of, for example, investment products that they can instead get because we have centralized factories. So if you look at the rollout of onemarket, in many of these countries that rollout does not replace existing products, it just is what it is because now we can provide a product that maybe our partners would not find the rationale of a critical mass to deploy for one market alone. We are actually by leveraging group size, providing our smaller countries or countries that were mainstream asset managers, insurance companies, etc., etc., are not present.

So I think it's definitely value added and I think in those countries we're definitely increasingly associated with quality fees, quality solution and other streams beyond just lending. And you can see it in the growth rates. They are growth rates from a low base but there are high growth rates. I think in the mind of clients there are a number of things. I would say that in Italy if I take P&C away from CPI, it was something we were practically absent three years ago and now I would say that most of our growth in Non-Life is that because you have noticed that the volumes in mortgages and other products are not growing. So the growth, where does it come from? Other products which were practically at zero three years ago and that is well known to our individual clients, that is also well known in the targeted offering we have for SME clients.

So I would say you need to ask for what clients but I think the numbers indicate that it is working. I think in terms of Amundi and other contracts, first of all, please do not -- when you look at all of these things, so Amundi, when you look at internalization of insurance, when you look at that, there is a delta but the delta is not 100% meaning. If I am telling you that we are internalizing in excess of 73%, 74% of the value chain in asset management and we are aiming to go to 82% and we are doing that without producing but by distributing third party and packaging and improving the performance of what we distribute, we cannot go to 100% and in any case the delta is between 75% and 82%. The delta is not between 0 and 100%.

If you take Life Insurance, we are already being paid for distribution. As we pull in Life Insurance, we will benefit from the underwriting of the product but the distribution is already within our fee base. So don't do 0-100% but they will contribute. So one, Asset Management, you are seeing it in let's say in-flight with onemarket and the other initiatives along this line. Two, Insurance will occur next year and you will see Life Insurance coming in-house during the course of next year. Three, on Payments, there are a number of initiatives which are completely along the same lines of what we have done in Asset Management and Insurance.

So we look for the right partners, in this case for example MasterCard. We tend to create a partnership, so not multiple renegotiated every time but one contract, one partnership, mutual investment in technology, in product, in growth and usually better economic outcome because the stability of the partnership makes it clear to both sides that we don't want to put it in risk. So you're seeing some of this already progressing in payments. There will be other initiatives in payment that are not public yet, that we're going to roll out and that are going to accrete and move us into that direction. I would say that in Payment, especially transactional payment, the difference is that that is already in-house and there will be significant investment in technology to further secure not only the service and our leadership but also our ability to cross-sell a number of products that we can do when we go end-to-end between a country and another.

And I can continue with all the factories but so if you take advisory and capital market, we have no ambition to become a leading global investment bank but in our client base, in our mid-cap client base and also small-cap, we want to be the dominant player. And therefore the level of service and what we do is focused on getting our advisory and capital market to work tightly together with our banks to attack those segment of clients where global investment bank don't reach because they are too small and local player reach but don't have the ability to serve because they cannot rebuild the same level of service. That is the philosophy we're going across and I do absolutely believe that it's more and more clear to clients that if they need advice on certain things we're there for them and you see it in the numbers of advisor and capital markets, for example.

Operator

Next question is from Britta Schmidt with Autonomous Research. Please go ahead.

Britta Schmidt

Hi, there. Good morning, thanks for taking my questions. My first one is on M&A. We can all work out what your financial hurdles are, but could you just explain what makes a good strategic fit for UniCredit, especially with the strategy that you've laid out? Is it a type of loan book? Is it capital-light, a certain type of client base, and where do you think you could add something to a deal? And the second one is on risk-weighted assets, based on another strong reduction from portfolio management, including securitizations. What further measures do you think you can undertake here? And maybe you can give us an idea of what is included in the excess capital guide to more than €6.5 billion to 2025 in terms of RWA? Thank you.

Andrea Orcel

On M&A, it's a little bit, every time I have this answer, it's broad. Okay? So I could make, I don't know if you consider that M&A, but I could make an investment in a fintech that provides us a technology platform to accelerate what we're doing in a certain segment of business. That usually is not large, but it doesn't have the same multiple and the same profile as a traditional bank M&A. But in our investment profile, when we look at return on investment and IRR, it needs to hurdle. Everything we do needs to hurdle. Hurdle means that when people tell you it's strategic, it's usually to convince you to do something that does not return above the cost of equity and therefore it's strategic. In our case, you're never going to hear that. So we're going to tell you it's strategic because it makes sense that we develop our platform with this technology on this and it hurdles over the life of the investment and we're very thorough in looking at that.

We could look at, for example, the metrics for internalizing Life Insurance are different from the one of a traditional bank. But I would say that many of you will tell me that especially because of the Danish compromise, the return on the capital employed is a no brainer and therefore you should be doing it. But if I look at straight P's, P's in insurance are higher than in banks. So but the return on investment makes all of the sense and given that it doesn't consume almost any capital, it becomes a good investment for us and so on and so forth.

So if I take a traditional bank, so the same kind of overall, then it's quite easy and if I can buy an overall bank, meaning UniCredit at under seven times earnings, it's very difficult for me to justify you all and our investors that it's a good idea if post synergies it costs me 10. So we will do it only if it beats our share buybacks. But then more generally, what are we looking at? Anything that strengthens the franchise. So we could look at things, so in Insurance, as we're internalizing insurance, strengthen the franchise. We can look at things in technology to accelerate the rollout of certain ideas that we have. That is just the beginning, but we could do other things in that area. We can look at traditional banks if they fit.

And the question is, we all take a step back and we say, okay, does that increase the value of our franchise, does that create over time a better return than either not doing anything or buying back our shares? If the answer is yes, we do it across the board. Because you asked me for metrics, I have to refer to traditional banks, but otherwise I would give you a long table with, if it's a fintech X, if it's an insurance Y, and that becomes a little bit ridiculous.

With respect to RWAs and the excess capital, and Stefan is going to guide you in further details, the excess of over €6.5 billion already embeds the impact from Balfour and still keeps us ahead of 13%. There are debates as to whether ahead of 13% plus Balfour is the right number or not, but the €6.5 billion is above 13% fully including Balfour and all the regulatory headwinds that we know of at this time.

With respect to what we're going to do on, let's say, more ordinarily RWAs, the same. Which means deploy our capital, therefore our RWAs above the cost of equity, and therefore make sure that in as much as possible our NII net of provision, which is where we deploy our capital, exceeds the cost of equity, critical in a bank, to provide profitability. Profitability, not net profit, profitability return on equity and distribution, and not destroy them. And secondly, increase the weight of fees, because obviously fees are zero RWAs. So the blended then beats in terms of return on tangible and distribution. That's looking forward. Looking backwards, which is what over time is reducing and then shall almost disappear, is the management of our backbook to make sure that the entire backbook portfolio fits the metric of exceeding the cost of equity.

As we said many times, Britta, we were, let's say, 30%, 40% was at that level before. Now we are over 60%, I think it is, or 70%, sorry. We're going to go 80%, 85%, 90% but we’re never going to be 100%. Nobody has 100%. So that will over time decrease, and at that point we will be reliant on the profitability and the capital generation of our NII net of provision and the fees, plus the capital impact from ’26 onward of our DTAs, which will start contributing and adding again to our capital generation above and beyond what is ordinary and organic.

Stefano Porro

So some data points, securitization and active portfolio management. So we're assuming to execute a few billions of securitization, both in ’24 and ’25, so on top of what we have already executed. Active portfolio management action, the same. Do consider that the overall stock of risk-weighted assets related to EVA-negative clients on the corporate side is around €20 billion at group level. So as a matter of fact, part of that will be improved working on the revenue side, so cross-selling and so on. Part of that is likely going to be not rollover, so will contribute to the active portfolio management action in ’24 and ’25.

With regards to the regulatory impact in relation to Basel IV, let's say last estimate is between 85 basis points and 290 basis points, is mainly operational risk. So it's around 70 basis point operational risk. Do take into consideration that that is mainly connected to our revenues, so the more we do revenues, the more we have a risk-weighted asset and operational risk. And the more we are reducing risk-weighted assets, the more the business point impact is higher. So all-in-all, the reason why the impact on Basel IV is slightly more is because we are betting on revenues and we are betting on risk-weighted asset management. Okay? So nothing wrong.

Finally, in relation to the business dynamic, we are not expecting a meaningful contribution of business-driven risk-weighted assets during the course of 2024, for what we have commented before in relation to the lending trend. While in ’25 and ’26, considering that we are expecting a reversal of the stock of lending, meaning going back to growth, we are currently assuming also some risk-weighted asset inflation that are in from business dynamics. But as related by Andrea, all has been taken into consideration for what we have gathered for in relation to capital plan.

Britta Schmidt

Thank you.

Operator

The next question is from Marco Nicolai with Jefferies. Please go ahead.

Marco Nicolai

Hi, thanks for taking my question. First one is on technology. Obviously, you are largely focused on cost and you are able to set costs of technology investment. Can you just remember us what you are doing on this front and how you are leveraging your pan-European footprint on the technology? Second one, I was wondering, since the business plan this year comes to a conclusion, I'm talking about UniCredit Unlocked, are you planning a new business plan presentation, I don't know, sometimes in the last quarter or maybe early next year? Thank you.

Andrea Orcel

As most of my colleagues at UniCredit know, we are never done. So we just keep on moving the boundaries out. I would say that for UniCredit Unlocked, too early to say. I don't think that UniCredit Unlocked is over, meaning UniCredit Unlocked is an approach, it's a vision, it's a strategy and it's the constant pursuit of certain KPIs across revenue growth, sustainable and profitable across operational excellence with cost/income ratio at the best end of the industry across capital excellence, across all of these things to be able to sustainably return on tangible above -- much above and beyond our cost of equity and to create a model that is highly cash generative so that we can reward our investors more than the benchmark.

So if you look at that then when we announced UniCredit Unlocked we were all about fees and then what happened, we had a war two months later and we have rates going up a year later or less. And therefore our plan was all about NII pass-through and building without forgetting that we needed to build further fees for when that passed. And I think what you're seeing going forward regardless of what we will do with a new plan or not, is a continuation of that adapted it for an environment that is changing. So it is difficult to think that we can substantially increase as we have done in the last three years, our cost to income, our cost of risk, our capital efficiency. Difficult, we can hold but difficult.

If you look at emphasis, our emphasis is how the other engine and a half, which is fees and some trading, can offset as much as possible the impact from normalization of rates and cost of risk on NII. That's the challenge, if we can do that while keeping the rest going back to what Ignacio was saying at the beginning, we will be able to stabilize our net profit and most importantly, our return on tangible well ahead of 15% and then as volume come back, grow from there and maintain a more normalized orderly growth from that level. We will keep the surprise as to where we do and when we do on Investor Day.

With respect to technology and then I'll pass it to Stefano, I think the direction is very clear. So direction number one is, in as much as possible and all of you probably realize how difficult that is to have -- the ambition is to have at some point in time one technology for the entire group. Why? Not because I particularly like it or not like, it is because you need to go back to that. If we were to be able to do that we would have a scale advantage in technology equivalent to a bank that is simple in onemarket.

So that is worth a lot of efficiency, it's worth speed, it's worth client journey, it's worth everything. But that is not easy. I think how many bank even have one technology in one market and we're saying we want one technology in 13. So it is a journey, it is a mindset that when we develop things, we're trying to get them to converge. But we also realize that if I wanted to do that and that was my sole objective, my 13 banks would stop because they would not be able to roll out all the things they're rolling out.

And in a number of countries we are a technology leader and we have taken technology to a very high level, take Croatia, take Bulgaria and we're not going to delay them because of the group product. We are going to try to get it to converge. The second thing is, thank God, sometimes you're lucky, when you wait and you're the second mover, cloud is allowing an acceleration and it's a lot easier to do and it's a lot cheaper to do and will allow us to go in that direction. But as Ali and I discuss all the time, the way we look at technology is, okay this is better from a technology standpoint. But better needs to deliver, better revenue, better cost, better client experience, and outcome. If it doesn't, we're a private enterprise and we're going to look at it in a different way.

So that is the philosophy and that is happily applied by Stefano who will give you more details about it.

Stefano Porro

Thank you, Andrea. So let's start from some data, some financials. So in relation to the IT investment in the Unlock plan, the environmental IT investment, I hold the amount of IT cash out was around €2.8 billion. We are in line with that, last year we've invested more than €700 million in terms of IT investment cash out and this year will be more than that. We are doing initiatives, let's say, on one end on efficiency, on the other end on change and effectiveness. On efficiency, clearly we have a renegotiation contract and we will negotiate contract with our partners and we are also in-sourcing people and skills, right? In order, let's say, with the ultimate goal to keep under our control the inflation that is absolutely there also when we are dealing with IT cost.

With regards to the change, we are fundamentally investing on fundamentally four pillars. Cyber security, the amount that we are investing on cyber security is the same, slightly growing. Then we have the experience platform that are fundamentally connected with our key strategic priorities, i.e. were invested in the client experience platform, for example, consumer financing. But that Andrea highlighted before is one of them and we are doing the same also on Insurance and we will do on Payment. So this type of client experience digital investment are totally in line with our key strategic priorities towards clients.

Then we have data, so we will have investment in relation especially to the improvement of data taking into consideration how much data is important, let's say also to run the business and to properly serve the clients. And then as highlighted by Andrea, we are also locating a part of the investment to cloud, meaning fundamentally to the infrastructure with the same goal. So in this case is partly efficiency because we can also harmonize and reducing the normal application that we have but on the other hand we can also speed an increase in the speed of delivery properly shifting from mainframe to cloud over the next years.

Marco Nicolai

Thank you, very interesting.

Operator

The last question is from Chris Hallam with Goldman Sachs. Please go ahead

Chris Hallam

Good morning, everyone. So just a quick one to begin with. So regarding the commitment to return the excess capital later than 2027, can I just check, does that mean distribution in relation to ’27, i.e. the dividends and buybacks conducted in 2028? Or that it's all done and dusted by the end of December ’27? And then second, on M&A, the move higher I guess in valuation multiples across the sectors has in theory made the backdrop a bit more supportive for M&A. But again, you've previously talked about the need to achieve alignment between willing buyers and willing sellers. And if we look around at recent developments in the space, it looks like that alignment can still be a stumbling block. So perhaps to what extent do you think the delivery of UniCredit Unlocked is now a key support in enabling you to achieve that alignment in the future, i.e. to convince the seller that you can deliver on integration and operational improvements ahead of what they might be able to achieve on a standalone basis?

Andrea Orcel

Okay, so the capital return, end of ’27 done and dusted and I said, at least or later, sorry, latest. So we will gauge the speed based on everything else to be able to deliver compelling distribution in the meantime. Then M&A, I think there I mean from our point of view, we have the following factors. Point number one, well, we have and we're very confident and excited about a great runway going forward. We have moved firmly from a probably something that looked more like a restructuring story, therefore with jumps in net income doubling and doubling or whatever it is to more of a normalized high value bank that obviously by definition is closer to reaching its excellence outcome and therefore has less internal delta than what we had in 2021.

Now it's a higher quality delta, you have a contribution from valuation all of these things. And we think that relative to the sector we're going to perform better in terms of that runway and that trend line significantly better but it is less than the jumps we've made every year in the last three. So that means that when we look at benchmarks and when we look at that M&A has a benchmark that is easier to match.

The second thing that has happened is that I do believe that not only we are more credible in our ability to extract value from a banking franchise but beside the credibility we're confident internally and capable of replicating what we've done on our franchise on others. And we think that that is a competitive advantage and we think that those two things bring our ability to extract synergies above and beyond what is the average on a spreadsheet, quite tangible and quite [grown]. And that's the second positive.

The third positive is to be seen and that is when the tide goes down and the substantial tailwind from rates and cost of risks normalizes, I think we will see a differentiated performance between the banks that have tried to crystallize 110% of that tailwind and therefore did relatively little to look at afterwards and the banks who have invested a lot, re-engineered a lot and taken some of the benefits from that tailwind to invest further in improving themselves that, that will be more capable to absorb the shock and then grow from there at a differentiated level.

We believe we are in the second category. We believe that if some of the targets are in the first, it will create a better alignment in valuation to fundamentals. So if you get a better alignment evaluation to fundamental, if we can extract more value and we are at a point where our credibility and our capability of doing it has increased, M&A is more probable. With respect to targets, I think that if I asked any of you what are the targets or possible target in any market? We should -- we would all end up with the same list not only for UniCredit but more generally.

So the question is, as you said, opportunity and opportunity is there a willing buyer and a willing seller and on the other hand are the economics and the ability to execute make sense. If you're getting those two but I do think we're going in a direction where probably the opportunity becomes more probable.

Chris Hallam

Super helpful, thank you.

Operator

Gentlemen the floor is back to you for any closing remarks.

Andrea Orcel

Thank you very much to everyone and we'll see some of you during our Road Show. Thank you for taking the time and see you soon. Thank you.

Operator

Ladies and gentlemen, thank you for joining, the conference is now over. You may now disconnect.

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